CONSTITUTIONAL DEBT LIMIT

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

The constitutional debt limit (CDL) limits the amount of state debt that the Legislature can authorize.

KEY FACTS

- ♦ The debt limit applies to debt repaid by unrestricted General Revenue Funds.
- ♦ The debt limit is expressed as a ratio of debt service to the three-year average of unrestricted General Revenue Funds and is limited to 5.0 percent. The limit includes issued debt and an estimate of debt service on authorized but unissued debt.
- ♦ As of the end of fiscal year 2015, the debt service ratio for issued debt was 1.38 percent. For the same period, the debt service ratio for issued plus unissued debt was 2.65 percent.

BUDGETARY IMPACT

According to the Bond Review Board, the debt service for issued debt included in the CDL calculation is $653.4 million for fiscal year 2016. However, appropriations for debt service on debt that was issued or is expected to be issued included in the CDL totaled $683.4 million for fiscal year 2016.

STATUTORY REFERENCES

The Texas Constitution, Article III, Section 49–j

The constitutional debt limit (CDL) restricts the authorization of additional state debt that is repaid with unrestricted General Revenue Funds (not self-supporting debt) to an amount that ensures that annual debt service payments do not exceed 5.0 percent of the three-year average of unrestricted General Revenue Funds.

KEY LEGISLATIVE CHANGES

A statutory debt limit was passed during the Seventy-second Legislature, First Called Session, 1991, effective January 1992. This debt limit was calculated almost identically to the current CDL, which was approved by voters as a constitutional amendment in November 1997. The statutory limit was removed in 1999 during a recodification process because it was substantially the same as the constitutional limit.

DEBT AUTHORIZATIONS INCLUDED IN THE LIMIT

The debt limit applies to debt repaid with unrestricted General Revenue Funds. As of the end of fiscal year 2015, three state issuers had debt programs with outstanding, or issued, debt calculated into the CDL debt service ratio. These programs primarily include: general building repair and renovation bonds issued by the Texas Public Finance Authority (TPFA); cancer research and prevention bonds, issued by TPFA; highway improvement bonds (Proposition 12, 2007), issued by the Texas Transportation Commission; and water development bonds for the Economically Distressed Areas Program (EDAP), State Participation, and Water Infrastructure Fund, issued by the Texas Water Development Board.

HISTORICAL DEBT LIMIT

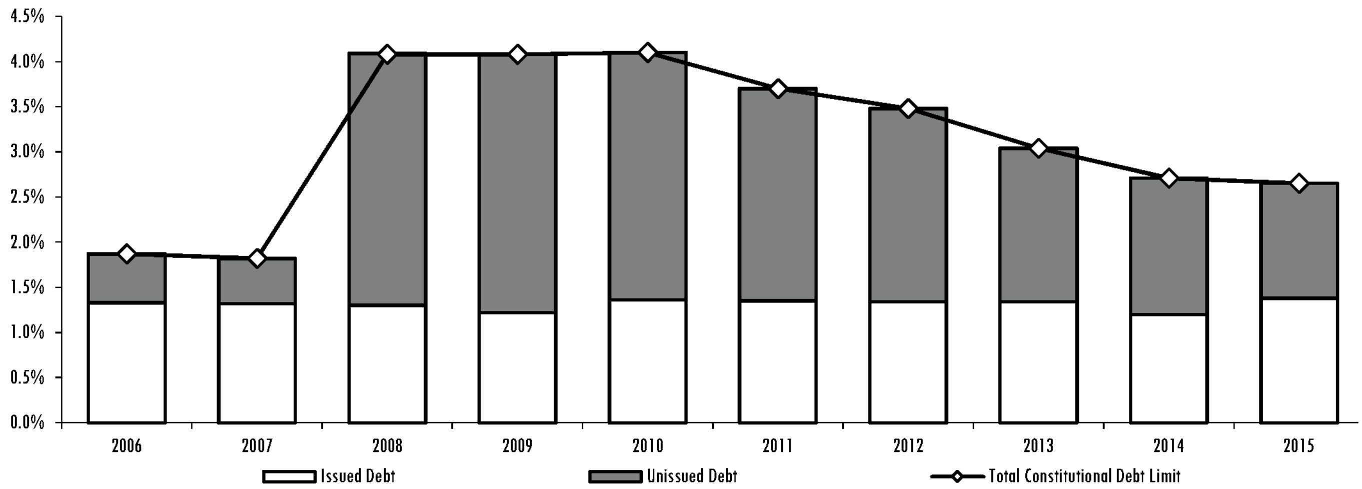
Since 1997, the CDL debt service ratio, including issued debt and authorized but unissued debt, has ranged from 1.82 percent in fiscal year 2007 to 4.10 percent in fiscal year 2010. From fiscal years 1998 to 2007, the CDL debt service ratio was mainly composed of issued debt. In November 2007, voters approved the authorization of $9.3 billion in not self-supporting debt that is repaid with unrestricted General Revenue Funds. These authorizations included general state facility repair (Proposition 4, 2007); cancer research and prevention; Proposition 12; and EDAP. **Figure 1** shows the historical CDL debt service ratio for fiscal years 2006 to 2015, including issued and unissued debt.

FACTORS AFFECTING THE DEBT LIMIT

Several factors can affect the state's CDL debt service ratio. These factors include changes in the following:

- the three-year average of unrestricted General Revenue Funds;
- debt outstanding and associated debt service;
- unissued debt authorizations, including repeal, and associated estimated debt service; as of August 2010, $287.1 million in unused debt authority was 10 years or older; and
- interest rates.

FIGURE 1
DEBT SERVICE AS A PERCENTAGE OF UNRESTRICTED GENERAL REVENUE FUNDS COMPARED TO THE CONSTITUTIONAL DEBT LIMIT RATIO, FISCAL YEARS 2006 TO 2015



SOURCES: Legislative Budget Board; Bond Review Board.

DEBT SERVICE REQUIREMENTS

The Texas Bond Review Board (BRB) is responsible for calculating the CDL debt service ratio and monitoring the state's relationship to the limit. For the portion of the CDL ratio based on issued debt, the agency uses actual debt service schedules from each debt issuance. For the fiscal year 2015 CDL debt service ratio, approximately $653.4 million in debt service, or 1.38 percent of the three-year average of unrestricted General Revenue Funds, is associated with outstanding, or issued, debt.

For the portion of the CDL ratio based on authorized but unissued debt, the agency typically has estimated debt service based on assumptions of a 20-year term, a level debt service payment structure, and a 6.0 percent interest rate. For the fiscal year 2015 CDL debt service ratio, these assumptions result in approximately $603.1 million, or 1.27 percent of the three-year average of unrestricted General Revenue Funds, in estimated debt service that is factored into the CDL debt service ratio. Based on the 2015 CDL debt service ratio of 2.65 percent, LBB estimates there is approximately $12.8 billion in remaining new debt authorization capacity for debt that is subject to the CDL.

USEFUL REFERENCES

Texas Bond Review Board, *Annual Report Fiscal Year 2015*: www.brb.state.tx.us/pub/bfo/AR/AR2015.pdf

Texas Bond Review Board, *Debt Affordability Study*, Appendix D, 2016: www.brb.state.tx.us/pub/bfo/DAS2016.pdf

Legislative Budget Board, *Texas State Government Effectiveness and Efficiency Report*, 2011, Implement Strategies to Increase Transparency of the State Constitutional Debt Limit: www.lbb.state.tx.us/Documents/Publications/GEER/GEER01012011.pdf#ImplementStrategies

Legislative Budget Board, Debt Summary, 2016: www.lbb.state.tx.us/Documents/Publications/Presentation/2214_Debt_Summary.pdf

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